



An Energy-Efficiency Workshop and Exposition
Orlando, Florida

Enhanced-Use Leasing and Energy

Edward L. Bradley, III

Department of Veterans Affairs
Office of Asset Enterprise Management



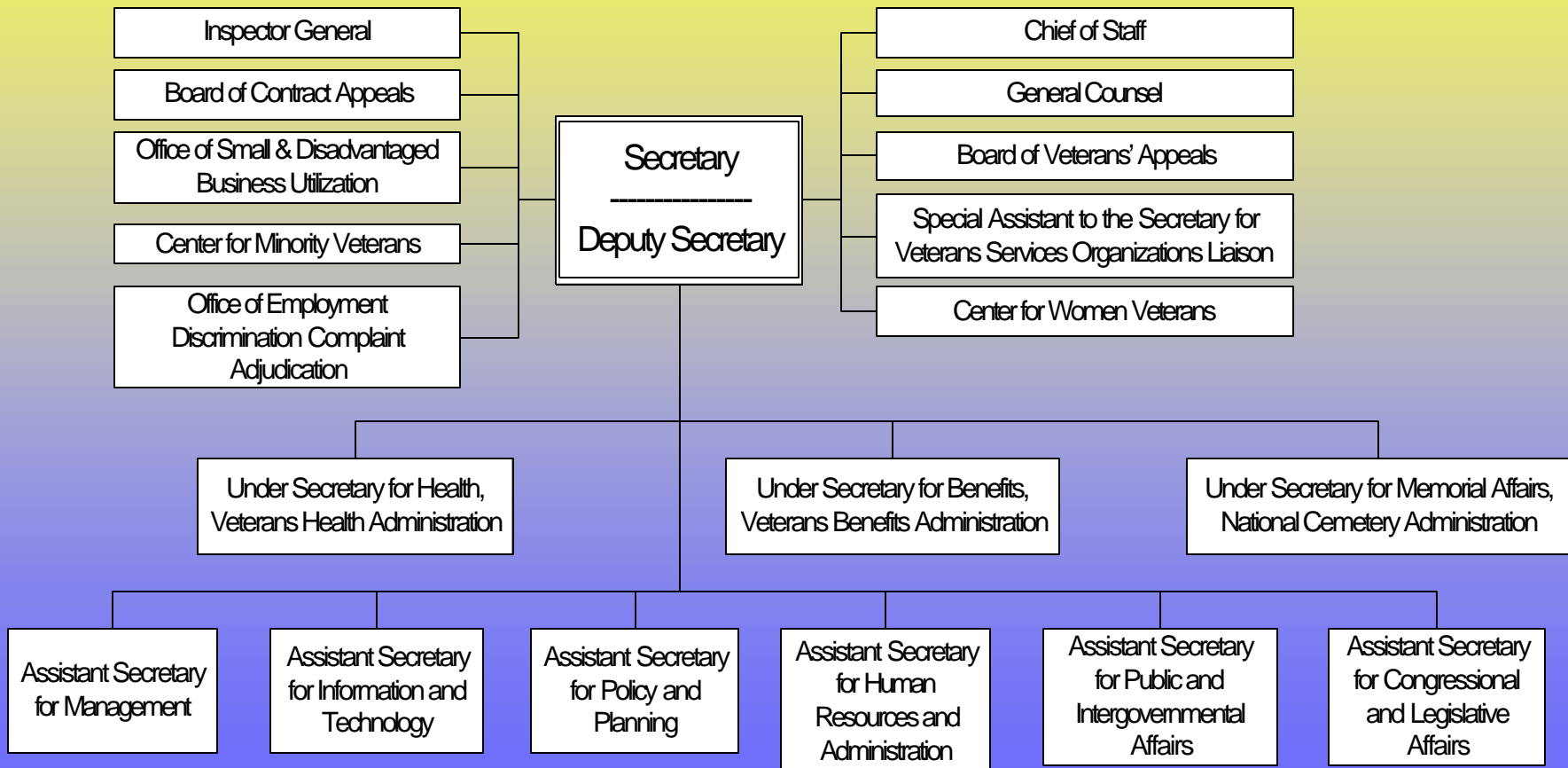
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Department of Veterans Affairs (VA)

- Established March 15, 1989, as a cabinet level department succeeding the Veterans Administration established in 1930.
- VA is responsible for providing benefits and health care to veterans and their dependents.
 - FY 2003 Budget - \$59.6 Billion
- 2nd largest of the 15 cabinet Departments
 - 225,000 employees nationwide
- Responsible for all federal cemeteries except Arlington National
 - 120 national cemeteries in 39 states and Puerto Rico
- Largest health care system in the world
 - 163 hospital systems
 - 850 community based clinics
 - 137 nursing homes
 - 43 domiciliaries

VA Organizational Chart

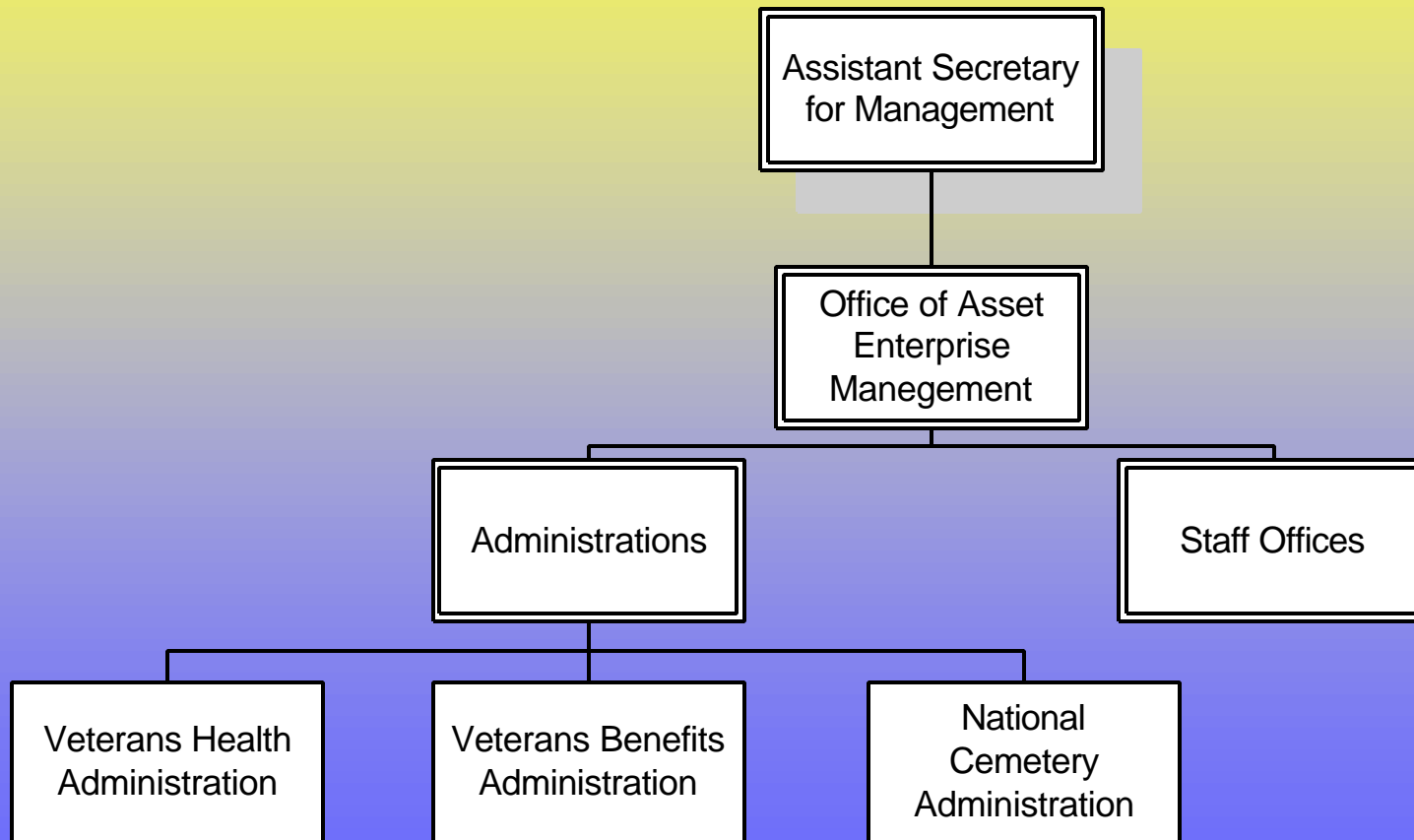




VA Energy Conservation Program

- VA has put in place a systematic, agency-wide approach to energy conservation
- In addition to being a good steward of the environment, VA will save money that can be used to improve the lives of our veterans
- VA's energy conservation program will promote efficiency in commodity acquisitions, building design and operations, energy consumption, energy savings, energy management, water conservation, and use of new advances in energy conservation technologies

VA Energy Conservation Program



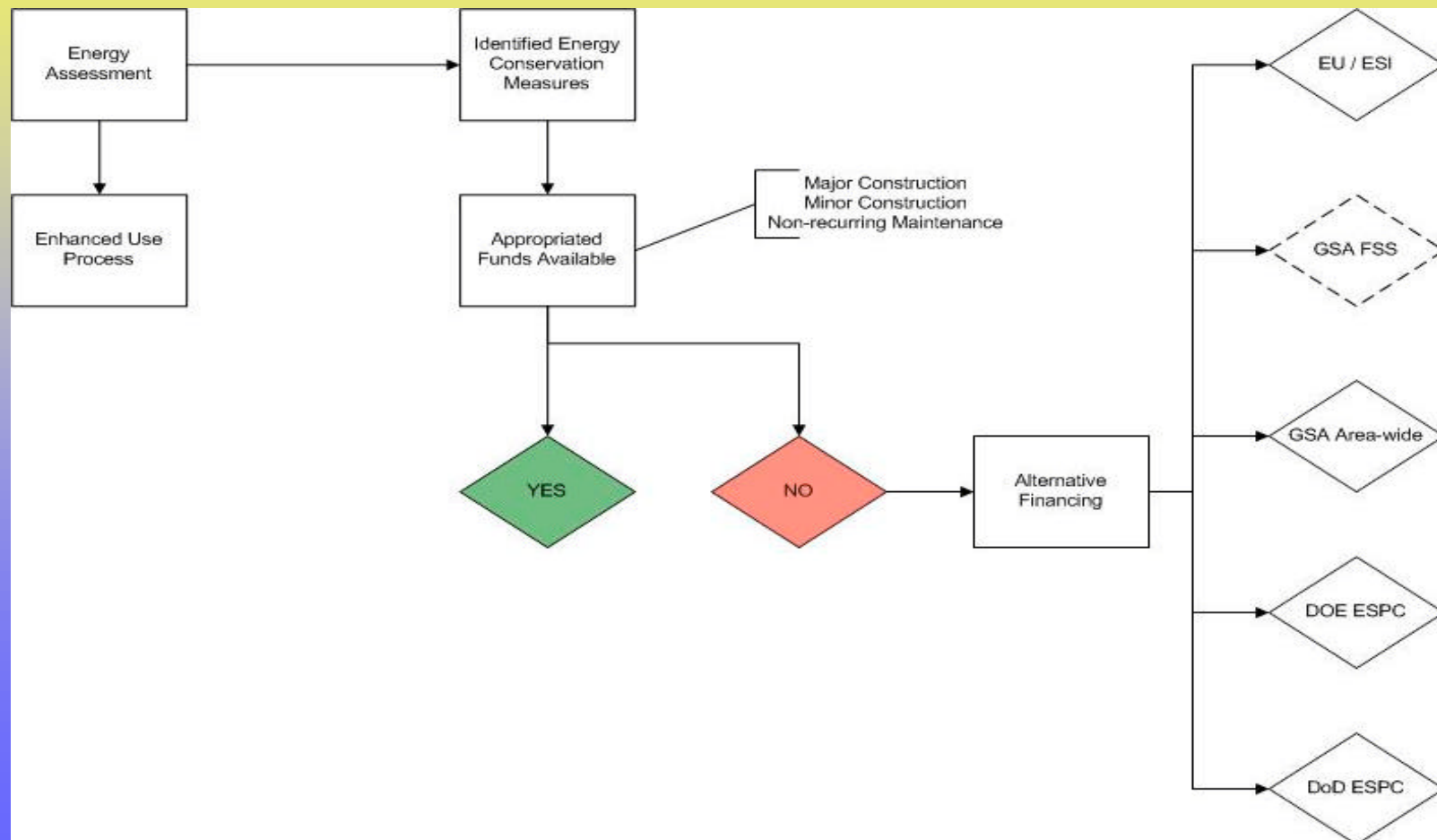


VA Energy Conservation Program

- Energy Investments
 - Current Workload Potentials - **\$1.0 Billion or more**
 - ESPC
 - 21 facilities identified as having high potential for new ESPC contracts (\$7M - \$10M each)
 - Co-generation
 - 48 facilities identified as having a high potential for the installation of a co-generation plant (\$5M - \$20M each)
 - Cool storage
 - 31 facilities with high potential for the installation of cool storage facilities (\$1M - \$2M each)
 - Demand-side management
 - 60 facilities identifies as having high potential for demand-side management upgrades (\$500K - \$750K per upgrade)

VA Energy Conservation Program

• Energy Investment – Decision Matrix





VA Energy Conservation Program

- Energy Investments
 - Energy investments financing options
 - Appropriated funds
 - Alternative financing
 - DoD ESPC
 - DOE ESPC
 - Enhanced-use leasing
 - GSA FSS
 - GSA UESC



Enhanced-Use Leasing

- Authorization
 - Title 38 USC 8161-8169 – Authorized August, 1991
 - Authority Expires – December 31, 2011
- Legislation
 - Allows VA to lease its property/facilities for up to 75 years
 - Lease can include both VA and non-VA uses
 - VA can receive cash or “in-kind” consideration (such as facilities, services, goods, or equipment)
 - VA can use Minor Construction \$\$\$ as a capital contribution
 - Funds received, in excess of expenses, deposited into the Medical Care Collections Fund



Enhanced-Use Leasing

- Experience
 - 12 years developing Enhanced-Use (EU) leases
 - Over 100 initiatives studied; 50+ currently “in development”
 - Child care centers
 - Mixed-use developments
 - Energy centers
 - Office buildings
 - Transitional housing
 - 28 projects awarded
 - 6 involved third party financing – municipal bonds
 - Includes three energy projects



Enhanced-Use Leasing

- VA Perspective
 - Promotes sound asset management policies and investment decisions
 - Facilitates operational flexibility needed to retain / reuse, or dispose of property, as dictated by changing mission needs
 - Reduces or eliminates operation and maintenance costs
 - Generates needed revenues and savings
 - Utilize private \$\$\$ vs. VA appropriations
 - Creates “win/win” arrangements with local communities and markets by facilitating economic development and expanding tax base
 - Retain cash proceeds for VA use



Enhanced-Use Leasing

- Private Sector Perspective
 - Provides long term property rights needed to secure private financing
 - Provides access to VA and to local market opportunities
 - Uses local codes and standards for development
 - Generates tax revenue and create jobs in local economy
 - Provides developer fair economic returns in exchange for assuming development and ownership risk
 - Allows VA to dispose/sell leased property at a later date



Enhanced-Use Leasing

- Congressional Issues
 - Not used enough
 - Expanded authority in expectation of generating revenues & improving services to veterans
- OMB Expectations
 - Assure adequate return to VA
 - Assure return to lessee is reasonable
 - Assure adequate participation by lessee
 - Assure fair comparison to other alternatives
 - Verify appropriate scoring of long-term commitments



Enhanced-Use Leasing

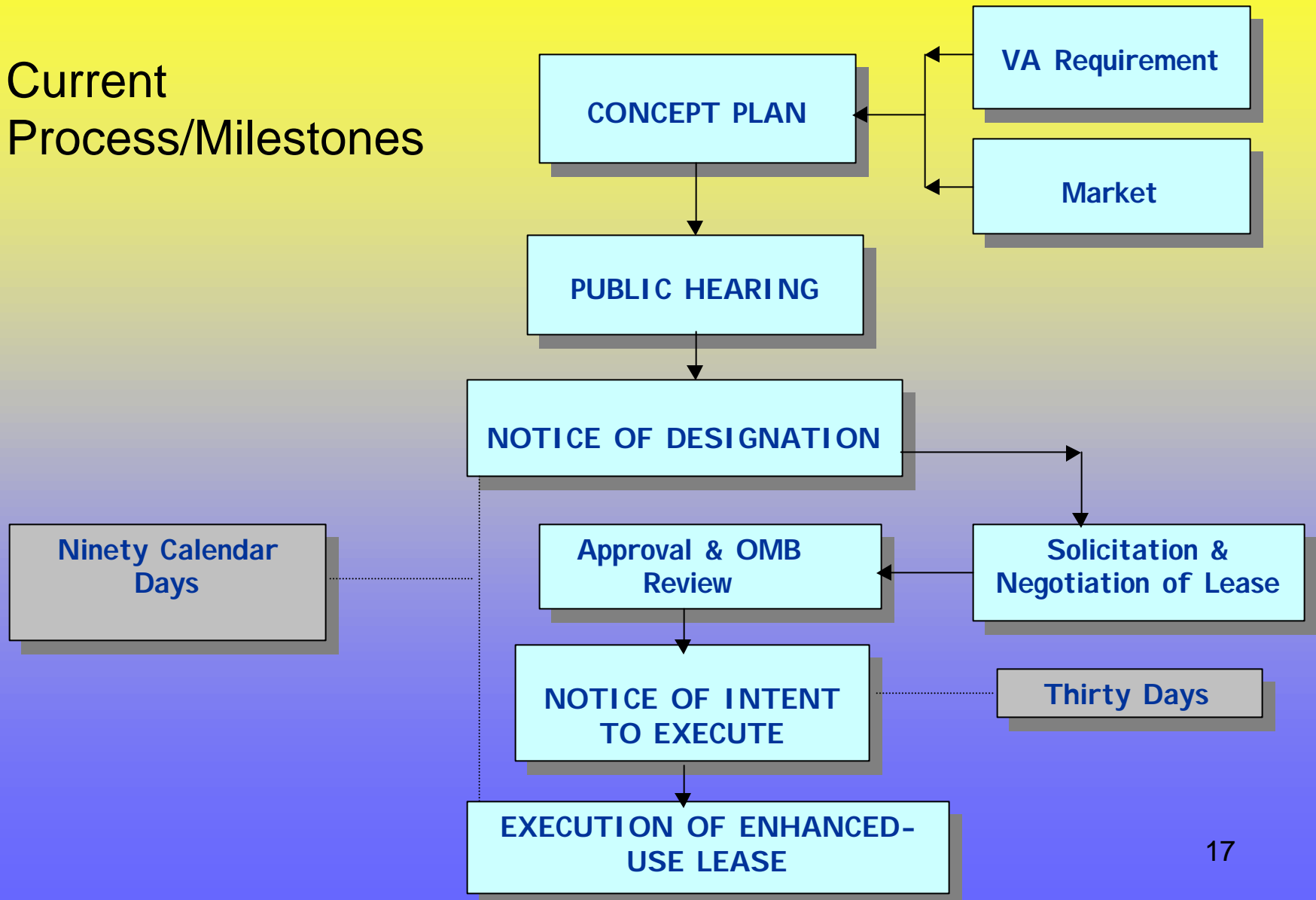
- VA Opportunities
 - VA Office Collocation
 - Energy Facilities/Utility Production/Co-Generation
 - Skilled Nursing Facilities/Assisted Care Living Centers
 - SRO/Transitional or Temporary Housing
 - Consolidations
 - Medical, Research Facilities, Parking Garages
 - Child Development Centers, Adult Day Care Facilities
 - Recreational Facilities
 - Capital Asset Realignment for Enhanced Services (CARES)
 - generated opportunities



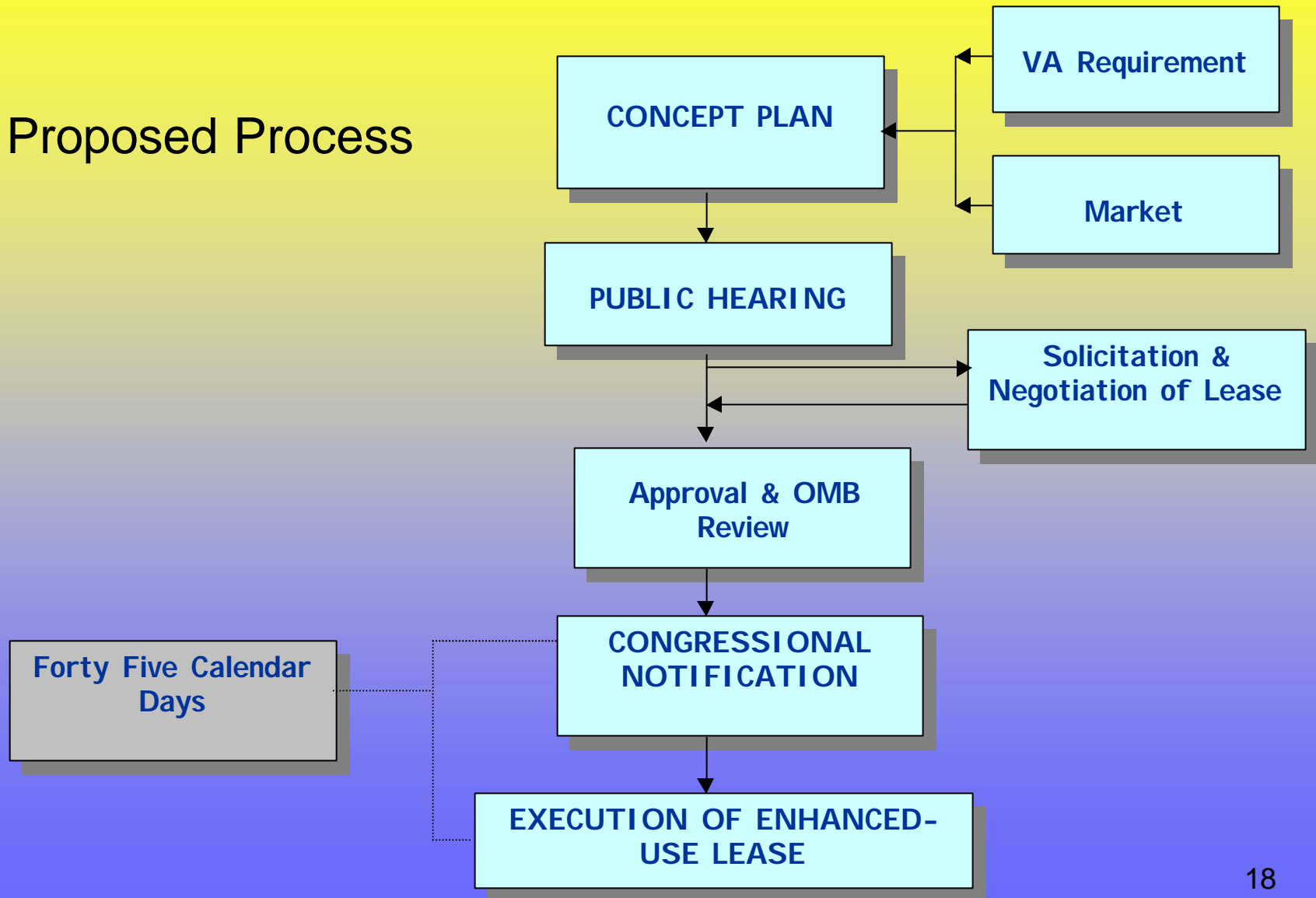
Enhanced-Use Leasing

- EU Requirements
 - Requires internal VA review/approval to initiate
 - Local public hearing to receive views of veterans and others
 - Selection procedures to ensure competition and procurement integrity
 - Two Congressional notifications
 - Internal capital investment review of final development plan
 - Significant projects reviewed by OMB
 - Compliance with federal environmental laws.

- Current Process/Milestones



- Proposed Process





Indianapolis, IN

Consolidation Project



Challenge: Eliminate dysfunctional space & use; retain needed limited presence on campus; improve health care services; reduce costs; and obtain return on VA investment.

Solution: An EU lease of 22 acres of the Cold Spring Road Division to the State of Indiana, for their use as a health care facility. In return, VA obtained \$15.7M in financial benefits, plus \$5M/year operational savings from consolidation, as well as improved operations and better service to veterans.



Houston, TX

Regional Office Collocation/Mixed-Use Development



Challenge: VBA needed to relocate their regional office, in order to provide better and more accessible services to over 876,999 veterans and their beneficiaries throughout south Texas.

Solution: An E-U lease of underutilized VAMC land to a local developer, who constructed a 140 KSF state-of-the-art regional office. The developer also financed, built, owns, and operates businesses on the balance of the site. This project saved taxpayers over \$6M in construction costs, generated an additional \$10M savings in operating costs, and produces other financial benefits.



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U.S. Department of Veterans Affairs
Office of Asset Enterprise Management

Atlanta, GA

Regional Office Collocation



Challenge: VBA needed to replace high-cost leased office space, while improving service delivery and accessibility to veterans.

Solution: VA leased 6 acres to local Development Authority. A developer, jointly selected by VA and the Authority, designed, built, and manages a 188 KSF office building and needed parking. Dekalb County Development Authority bond financing permitted VA to substantially reduce costs. Average annual cost 50% less than comparable market rates.

Similar projects completed at Salt Lake City, UT, Chicago (Westside Division), IL, and Milwaukee, WI



Washington, DC

Child Development Center



Challenge: Improve employee environment, recruiting and retention, without adding overhead.

Solution: VA leased 1.3 acres to La Petite Academy, a national child care provider, who financed, designed, built, and manages a center for 100 children. VA employees receive substantial discounts. VA provides no funding and makes no guarantees.



Similar projects completed at West Haven, CN and Dallas, TX.



Enhanced-Use Leasing

- EU Energy
 - Utilize EU lease authority to develop and operate co-generation energy centers through alternative financing
 - Developer / Operator leases, long-term, real property from VA
 - Designs / constructs / operates a co-generation energy center
 - Sells energy (electric, steam and chilled water) to VA, at cost.
 - Sells energy to third party users



Enhanced-Use Leasing

- EU Energy
 - 48 locations identified with VA nationwide as having “high potential” for a co-generation facility
 - Potential development / construction value in excess of \$800 million
 - Accomplish energy conservation measures via EU leasing



Enhanced-Use Leasing

- EU Energy – VA's Benefits
 - Ability to install high efficiency energy centers at VA facilities
 - Low financing costs
 - Ability to purchase energy at reduced costs, lowering energy bills
 - Ability to do energy conservation measures
 - No capital costs
 - Reduces or eliminates VA energy operation and maintenance costs



Enhanced-Use Leasing

- EU Energy
 - Top 20 VA sites with high co-generation potential
- | | |
|--------------------|-------------------------------|
| ✓ Phoenix, AZ | ✓ Loma Linda, CA |
| ✓ Bronx, NY | ✓ Fresno, CA |
| ✓ Reno, NV | ✓ Livermore, CA |
| ✓ Big Spring, TX | ✓ Albany, NY |
| ✓ Montrose, TX | ✓ Tucson, AZ |
| ✓ Bonham, TX | ✓ Mt. Home, TN |
| ✓ Bath, NY | ✓ Brooklyn, NY |
| ✓ Wilkes-Barre, PA | ✓ Cleveland, OH (Wade Park) |
| ✓ Sepulveda, CA | ✓ Cleveland, OH (Brecksville) |
| ✓ Atlanta, GA | ✓ West Los Angeles, CA |



Enhanced-Use Leasing

- EU Energy
 - Process
 - Co-generation screening through the energy assessment process
 - Feasibility study
 - Initial VA review / approvals
 - Public hearing
 - 1st Congressional notification
 - Request for Proposal – full and open competition
 - Evaluation / selection for a developer / operator
 - Final negotiations
 - VA capital asset review / approval
 - 2nd Congressional notification
 - Award of an enhanced-use lease



Enhanced-Use Leasing

- EU Energy
 - Energy Savings Initiatives (ESI)
 - EU definition for energy conservation measures (ECM)
 - Any location with an active EU lease is eligible for an ESI
 - ESI is an “in-kind” consideration to an EU lease
 - Reduces contingent liabilities
 - Favorable financing
 - Payback through guaranteed savings

Enhanced-Use Leasing

- Mountain Home – Co-Generation Center



Challenge: Replace outdated energy plant and reduce energy costs

Solution: VA leased 2 acres to energy provider who operates a \$27M co-generation plant. \$3M of ESIs also installed. Projected NPV of capital and O&M savings expected to exceed \$36M. Also selling energy products to neighboring medical affiliate.

Similar projects under construction at North Chicago, IL and Chicago (Westside Division), IL



Enhanced-Use Leasing

- Future EU Energy Initiatives
 - Consolidation of several EU energy projects for financing
 - Energy centers designed and constructed that will allow distribution of excess electric to other sites in VA's system
 - Aggressive incentives for energy center manager / operators to promote third party sales



Enhanced-Use Leasing

- EU Energy - Looking for interested parties to participate
 - Energy developers / operators
 - Financial groups / lenders
 - Transaction teams
 - Project facilitators
 - Energy consultants



Enhanced-Use Leasing

- **For more information and if interested in participating in VA's energy programs, e-mail**
 - **Edward (Ed) L. Bradley, III**
energy@mail.va.gov